Michigan Dept. of Treasury, Local Audit & Finance Division
496 (3-98), Formerly L-3147

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type	Local Government Name	County
☐ City ☐ Township ☐ Village ☒ Other	Joint Construction Code Authority	Isabella

Audit Date	Opinion Date	Date Accountant Report Submitted to State:
March 31, 2004	June 9, 2004	August 19, 2004

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.

☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).

☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).

☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.

☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).

☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.

☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).

☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).

☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	x		
Reports on individual federal financial assistance programs (program audits).			x
Single Audit Reports (ASLGU).			x

Certified Public Accountant (Firm Name)			
Page, Olson & Company, P.C., CPA's			
Street Address	**City**	**State**	**ZIP**
2865 S. Lincoln Road - P.O. Box 368	Mt. Pleasant	MI	48804-0368
Accountant Signature			

JOINT CONSTRUCTION CODE AUTHORITY

AUDITED FINANCIAL STATEMENTS AND

REPORT OF COMMENTS AND RECOMMENDATIONS

YEAR ENDED MARCH 31, 2004

JOINT CONTRUCTIONS CODE AUTHORITY
YEAR ENDED MARCH 31, 2004

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JOINT CONSTRUCTION CODE AUTHORITY
BOARD OFFICIALS
YEAR ENDED MARCH 31, 2004

CHAIRPERSON

Jim Faber

SECRETARY

Dan Shaw

TREASURER

Shirlee Van Bonn

TRUSTEE

Darrell Metcalf

Richard VanHorn

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INDEPENDENT AUDITORS' REPORT

June 9, 2004

Authority Board
Joint Construction Code Authority
Townships of Fremont, Rolland,
Nottawa, and Deerfield
Isabella County, Michigan

We have audited the accompanying statements of assets and liabilities arising from cash transactions of the individual funds of the Joint Construction Code Authority consisting of the following participating Local Units of Government: Fremont, Rolland, Nottawa, Deerfield, and Sherman Townships within the County of Isabella, of the State of Michigan (hereinafter referred to as the Authority) as of March 31, 2004, and the related statement of revenue collected, expenditures paid, and changes in cash basis fund balance for the year then ended, as listed in the Table of Contents. These financial statements are the responsibility of the management of Joint Construction Code Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in the Summary of Significant Accounting Policies, Note 1-C, the Authority prepares its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and cash basis fund balances for the individual funds of the Authority as of March 31, 2004, arising from cash transactions, and its revenue collected, expenditures paid, and changes in cash basis fund balance for the year then ended, on the basis of accounting described in Note 1-C.

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Authority Board
Joint Construction Code Authority

Our audit was made primarily for the purpose of rendering an opinion on the financial statements. Supplemental financial data identified as Schedules in the Table of Contents and included in the report is not considered necessary for a fair presentation of the financial position and results of operations but is presented primarily for supplemental analysis purposes. This additional information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Our report of comments and recommendations is included herein and forms a part of this report.

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JOINT CONSTRUCTION CODE AUTHORITY
SPECIAL REVENUE FUND
STATEMENT OF ASSETS AND LIABILITIES
ARISING FROM CASH TRANSACTIONS
MARCH 31, 2004

Statement A-1

ASSETS

Cash in Checking	$ 2,137
Petty Cash	200
TOTAL ASSETS	$ 2,337

LIABILITIES AND CASH BASIS FUND BALANCE

Cash Basis Fund Balance	$ 2,337

STATEMENT OF REVENUE COLLECTED, EXPENDITURES PAID,
AND CHANGES IN CASH BASIS FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2004

Statement A-2

	Budget	Actual	(Over) Under Budget
REVENUE COLLECTED			
Permits	$ 73,118	$ 71,910	$ 1,208
Interest	93	95	(2)
Miscellaneous	64	64	-
Clerical	6,175	4,612	1,563
TOTAL REVENUE COLLECTED	79,450	76,681	2,769
EXPENDITURES PAID			
General Government			
Authority Board	20,240	20,240	-
Inspections	59,216	59,216	-
Township Hall	5,046	5,046	-
Board of Review	200	200	-
TOTAL EXPENDITURES PAID	84,702	84,702	-
EXCESS OF REVENUE COLLECTED OVER (UNDER) EXPENDITURES PAID	(5,252)	(8,021)	2,769
CASH BASIS FUND BALANCE - APRIL 1, 2003	6,265	10,358	(4,093)
CASH BASIS FUND BALANCE - MARCH 31, 2004	$ 1,013	$ 2,337	$ (1,324)

The five local units of government participating in the Joint Construction Code Authority as of March 31, 2004 include Fremont, Rolland, Nottawa, Deerfield, and Sherman Townships. Each has adopted similar Building and Construction Codes. The Joint Construction Code Authority is established as a distinct and separate entity. This is set up specifically to administer and enforce the building and construction codes adopted by each of the participating local units of government; to set, collect and deposit fees for permits and inspections; and to hire sufficient building inspectors.

A. REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Authority which has no component units. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

B. FUND ACCOUNTING

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures as approporiate. The various funds of the Authority are as follows:

The Authority consists of only one fund, a Special Revenue Fund, used to account for specific governmental revenue requiring separate accounting because of legal or regulatory provisions or administrative action. The revenue, mainly inspection fees, is used to provide inspection services.

C. BASIS OF ACCOUNTING

The accounting books and records of the Authority are maintained on a cash basis of accounting during the year and the financial statements have been prepared directly from these books and records. The financial statements do not, therefore, give effect to acccounts receivable, accounts payable, and accrued items.

D. BUDGETARY COMPARISONS

A budget was prepared by the Authority for the Special Revenue Fund and amendments were made to the budget. Prior year actual amounts for revenue and expenses were not included. The level of adoption for the Special Revenue Fund is the line item level. Appropriations lapse at year end. Comparisons of actual expenditures and revenues to this budget are presented in Statement A-2.

NOTE 2 - BALANCE SHEET - CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are in one financial instutution in the name of the Authority Treasurer. Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations. Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States; repurchase agreements consisting of bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; bankers' acceptances of the United States banks; obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; commercial paper rated within the two highest classifications by not less than two standard rating sevices which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company act of 1940, with the authority to purchase only investments by a public corporation; obligation described above if purchased through an inter-local agreement under the urban cooperations act of 1967, PA 7, MCL 124.501 to 124.512; investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118, and the investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. The Authority's deposits are in accordance with statutory authority.

The risk disclosures for the Authority's cash deposits are as follows:

	Insured (FDIC)	Uninsured	Total
Carrying Value			
Checking	$ 2,137	$ -	$ 2,137
Bank Balance			
Checking	$ 6,508	$ -	$ 6,508

The cash balances were all insured by federal depository insurance through Isabella Bank and Trust.

NOTE 3 - LOCAL UNIT'S INTEREST IN JOINT CONSTRUCTION CODE AUTHORITY

The local unit's interest in Joint Construction Code Authority is determined by the ratio of building permits issued for the preceding fiscal year in each local unit compared with the total building permits issued in all local units.

For the Joint Construction Code Authority year end March 31, 2004, Fremont, Rolland, Nottawa, Deerfield and Sherman's interest in Joint Construction Code Authority based on the above formula is 27%, 15%, 23%, 11%, and 24% respectively.

Each local unit is also responsible for their share of the budget which may not be covered by fees collected by the Authority. Such proportionate share shall be determined by the ratio of permits issued within each local unit compared with the total building permits issued in all local units for the fiscal year covered by said budget.

NOTE 4 - CONTINGENCIES

The Joint Consctruction Code Authority is subject to various legal proceedings arising in the course of providing services to the public. However, in the opinion of the Joint Construction Code Authority's attorney and management, the resolution of these matters may not have a material effect, if any, on the financial condition of the Joint Construction Code Authority.

JOINT CONSTRUCTION CODE AUTHORITY
SPECIAL REVENUE FUND
SCHEDULE OF EXPENDITURES
PAID BY OBJECT ACCOUNT
YEAR ENDED MARCH 31, 2003

Schedule 1

	Budget	Actual	Under (Over) Budget
JCCA BOARD			
Salaries and Wages	$ 2,720	$ 2,720	$ -
Treasurer/Clerk	1,200	1,200	-
Clerical	3,000	3,000	-
Insurance (Multi-Peril)	4,295	4,295	-
Accounting and Legal	4,621	4,621	-
Publishing	57	57	-
FICA	4,347	4,347	-
TOTAL JCCA BOARD	20,240	20,240	-
INSPECTION			
Wages	54,704	54,704	-
Education and Training	1,329	1,329	-
Membership	475	475	-
Miscellaneous	450	450	-
Insurance (Workers Compensation)	1,824	1,824	-
Travel	434	434	-
TOTAL INSPECTION	59,216	59,216	-
TOWNSHIP HALL			
Rent	2,758	2,758	-
Telephone	626	626	-
Office Supplies	1,662	1,662	-
TOTAL TOWNSHIP HALL	5,046	5,046	-
BOARD OF REVIEW			
Wages	200	200	-
TOTAL EXPENDITURES PAID	$ 84,702	$ 84,702	$ -

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AUDIT COMMUNICATION AND
REPORT OF COMMENTS AND RECOMMENDATIONS

June 9, 2004

Authority Board
Joint Construction Code Authority
Township of Fremont, Rolland,
Nottawa, and Deerfield
Isabella County, Michigan

We have recently completed our audit of the financial statements of Joint Construction Code Authority for the year ended March 31, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of Joint Construction Code Authority in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

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An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, and audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

Auditing standards call for us to inform you regarding the initial selection of , and changes in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is lack of authoritative guidance or consensus.

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have nothing to disclose related to the above issues at this time.

COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/ COMPLIANCE/EFFICIENCY

In planning and performing our audit of the financial statements of the Joint Construction Code Authority, for the year ended March 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the March 31, 2004, financial statements, and this report does not affect our report on those financial statements dated June 9, 2004. We have not considered internal control since the date of our report.

REPORTABLE CONDITIONS (MATERIAL WEAKNESSES)

SEGREGATION OF DUTIES (Repeated Comment)

Separation of duties between persons who authorize transactions and persons who have control over the related assets does not exist to the extent possible in larger entities with several employees involved in the accounting process.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increased the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of accounting duties substantially increases control over errors without duplication of effort.

The desired separation of duties cannot be achieved with only one employee involved. The careful and consistent oversight provided by the Authority Board appears to offset the inability to separate various accounting functions and should be continued. The Authority Board maintains monitoring of the current operations. Operating results are reviewed monthly which provides significant oversight for the inspection of any irregularities and discrepancies. The cost for additional staff to enable separation of duties is likely not economically justified and therefore, the Authority Board's oversight is assisting in this internal control function. Our finding is intended only to point out that this element of internal control separation of duties does not, and at present, cannot exist, as well as to remind the board that it's oversight and continued monitoring is a necessary and important function.

BUDGET REQUIREMENTS

P.A. 2 of 1968 requires that a budget include the actual results of the prior year and an estimate of the current year. We noted during the audit that the approved budget did not include either of these items. It is recommended that the Authority review the requirements of the Budget Act in an attempt to become compliant.

FICA EXPENSE (Repeated Comment)

It was noted during payroll testing that all of the FICA expense is recorded in the Board activity. It is recommended that the FICA expense be allocated to the various activities that the wages are recorded in.

PERMITS

During testing of permits it was noted that several building permits had sections that appeared to not be filled in completely. The total amount collected did not add up to the individual line amounts shown on the permit. It appears that amounts were collected for the "special" line item as well as clerical fees but it simply was not listed on the face of the permit. Greater care should be taken to ensure that all amounts collected are properly reflected on the individual line items of the permit.

It was also noted that while the permits were pre-numbered, there were large gaps in the permits numbers for all areas except the building permits. It was also noted that a small number of the mechanical permits issued were not pre-numbered. It is recommended that all permits be pre-numbered and system developed to account for each permit be established to prevent the possibility of mis-use.

SUMMARY

We would like to thank the Authority personnel and Officials for the cooperation we received from them throughout the course of the audit. We welcome any questions you may have regarding the foregoing comments, and we would be happy to discuss any of these or other questions that you might have at your convenience.

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